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FM AMEMBASSY RANGOON
TO RUEHC/SECSTATE WASHDC IMMEDIATE 9080
INFO RUCNASE/ASEAN MEMBER COLLECTIVE
RUEHBK/AMEMBASSY BANGKOK 2939
RUEHBJ/AMEMBASSY BEIJING 2300
RUEHBY/AMEMBASSY CANBERRA 2032
RUEHKA/AMEMBASSY DHAKA 5222
RUEHLO/AMEMBASSY LONDON 2145
RUEHNE/AMEMBASSY NEW DELHI 5507
RUEHUL/AMEMBASSY SEOUL 9103
RUEHTC/AMEMBASSY THE HAGUE 0776
RUEHKO/AMEMBASSY TOKYO 6680
RUEHCN/AMCONSUL CHENGDU 1812
RUEHCHI/AMCONSUL CHIANG MAI 2190
RUEHCI/AMCONSUL KOLKATA 0660
RHHMUNA/CDR USPACOM HONOLULU HI
RUEKJCS/JOINT STAFF WASHDC
RUCNDT/USMISSION USUN NEW YORK 2483
RUEHGV/USMISSION GENEVA 4490
RUEATRS/DEPT OF TREASURY WASHDC
RUEKJCS/DIA WASHDC
RUEAIIA/CIA WASHDC
RHEHNSC/NSC WASHDC
RUEKJCS/SECDEF WASHDC

C O N F I D E N T I A L SECTION 01 OF 03 RANGOON 000340

SIPDIS

STATE FOR EAP/MLS, INR/EAP, EEB/TFS, INR/EAP, OES
BANGKOK FOR REO OFFICE
PACOM FOR FPA
TREASURY FOR OASIA, OFAC

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TAGS: [ECON](#) [SENV](#) [PREL](#) [PGOV](#) [ETRD](#) [PINR](#) [BM](#)
SUBJECT: BURMA: GEM DEALERS COMPLAIN ABOUT FINANCIAL
CRISIS, SANCTIONS

REF: A. 07 RANGOON 62
[1](#)B. 07 RANGOON 61
[1](#)C. RANGOON 333

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Classified By: Economic Officer Samantha A. Carl-Yoder for Reasons 1.4
(b and d).

Summary

[1](#)1. (C) Burmese gem merchants complain that a combination of the world financial crisis, lower worldwide demand for luxury items, and sanctions have reduced jade and gems sales thus far in 2009. While the Burmese Government continues to profit from its jade and gem auctions, small local traders have experienced a dramatic drop in both the price of jade and gems and overall sales. The lack of demand has forced more than 20 jade and gem mines to close in the past six months; local gem merchants estimate approximately 100,000 miners are now out of work. End Summary.

Burma's Buried Treasure

[1](#)2. (C) Burma is one of the world's largest producer of precious and semi-precious stones, including jade, rubies, sapphires, and pearls (both freshwater and saltwater pearls). The majority of Burma's jade and gem mines are found in the north in Phakhant, Kachin State (jade) or in Mogok or Mineshu in Mandalay Division (gems). Most mines are operated by the regime through state-owned enterprise Myanmar Economic

Holdings Ltd (MEHL) or by private Burmese companies that have entered into joint ventures with MEHL. In rare instances, private Burmese individuals may own mines outright, often receiving the mine in return for support provided to the regime. The Ministry of Mines and MEHL's current practice prevents individuals from buying mining permits, though no law mandates that; moreover, foreigners are prohibited from investing in Burma's jade and gem sector (Ref A).

13. (C) Almost all Burmese jade is sold at the MEHL jade and gem emporiums, which occur four to five times a year. Small pieces of uncut jade make their way for sale on the local market, although the quality is often lower than what is sold at auction. Per GOB regulations, the majority of high-quality Burmese gems must be sold at auction. MEHL allows Burmese companies to sell medium-quality and inferior stones on the local market (Ref B). According to diplomatic contacts and gem collectors, prominent mine owners, including Kambawza Bank owner Aung Ko Win, receive special GOB permission to sell a percentage of high-quality stones on either the local market or to overseas buyers. MK Gems General Manager Nay Min Han told us that many military officials and cronies involved in the gems sector smuggle out high-quality stones to sell overseas (Ref C). These sales are not included in official figures.

Local Dealers Report Declining Sales

14. (C) Despite record sales in 2008, trade analysts and gem merchants predict that 2009 sales, particularly on the local market, will decline due to the continuing world financial

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crisis and lower demand for luxury goods (Ref C). Nay Min Han explained that most local gems dealers sell their stones to tourists and foreigners living in Burma. The drop in tourism, down an estimated 25 percent from FY2007-2008, directly affects gem and jade sales. During FY2007-2008, tourists (primarily European) visiting MK Gems spent an average of USD 1000 per visit. During the past year, the average sale has dropped to USD 350, Nay Min Han stated. He surmised that due to the world financial crisis, fewer people can afford to travel or purchase luxury items, including gems and jade.

15. (C) Gem merchants in Rangoon's main Bogyoke Market report a steady decline in sales this year. Ma Sein, who owns two jade and gems stalls, confirmed that fewer tourists are purchasing stones, but also noted that the quality of Burmese stones available to domestic merchants has declined during the past six months. She explained that because the worldwide price of gemstones has dropped, traders prefer to hold onto their best stones until they can earn a higher profit. Consequently, local dealers have access to inferior-quality stones, which people appear less willing to buy. Several gem merchants confirmed that the local retail price of gems and jade has dropped by up to 25 percent since mid-2008, reducing profit margins.

Impact of Sanctions?

16. (C) When asked whether EU and U.S. sanctions affected his business, Nay Min Han stated that it is difficult to separate the impact of sanctions from the world financial crisis. Nevertheless, he suggested that sanctions are hurting the "little people" in Burma, including small traders and mine workers. He explained that sanctions deter tourists from visiting Burma, which affects tourism-related industries (which he argues includes gems). Others have speculated that sanctions, including the JADE Act, have affected gem dealers in Thailand, many of whom previously purchased stones smuggled from Burma. Demand is down in Thailand, as many Thai dealers are no longer as interested in Burmese stones because of sanctions difficulties, one expert concluded.

¶17. (C) Several gem merchants told us that sanctions, including the JADE Act, have little effect on the regime. Nay Min Han confirmed that more than 3,000 participants attended MEHL's March 2009 auction -- roughly the same number as last year. While March auction sales were down 10 percent (Ref C), the regime is still profiting from the jade and gem business, he concluded. A common observation is that buyers at MEHL auctions, who are mainly from China, Hong Kong, and Thailand, will likely alter certificates of origin to indicate that the jade or gems were produced in a country other than Burma.

Increasing Unemployment in Mining Sector

¶18. (C) Zaw Win Naing, General Manager of Kambawza Bank (which owns several jade and gems mines in Northern Burma) told us that despite reduced sales in 2009, the regime continues to pressure mine operators to increase jade and gem extraction. MEHL has threatened several jade mines in

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Phakphant with fines of up to 400 million kyat (USD 400,000) should they stop production. Nevertheless, Nay Min Han confirmed news reports that more than 20 jade and gem mines stopped production during the past six months, laying off more than 100,000 workers. We are unable to verify these figures. He could not confirm whether the affected companies paid the fine, but noted it was more likely MEHL would have confiscated the mines.

Comment

¶19. (C) It is too early to determine the impact of the JADE Act on Burma's jade and gem sector. While small merchants report lower sales in 2009, the main reason for the drop is business is more likely due to the world financial crisis and the drop in demand than because of U.S. sanctions. Indeed, many gem merchants in Rangoon's market were unfamiliar with the JADE Act, and could not analyze how or if the policy affects sales. While the recent downturn in the jade and gem sector has affected Burmese workers and traders, auction sales data indicates that the regime continues to profit from jade and gems sales.

DINGER